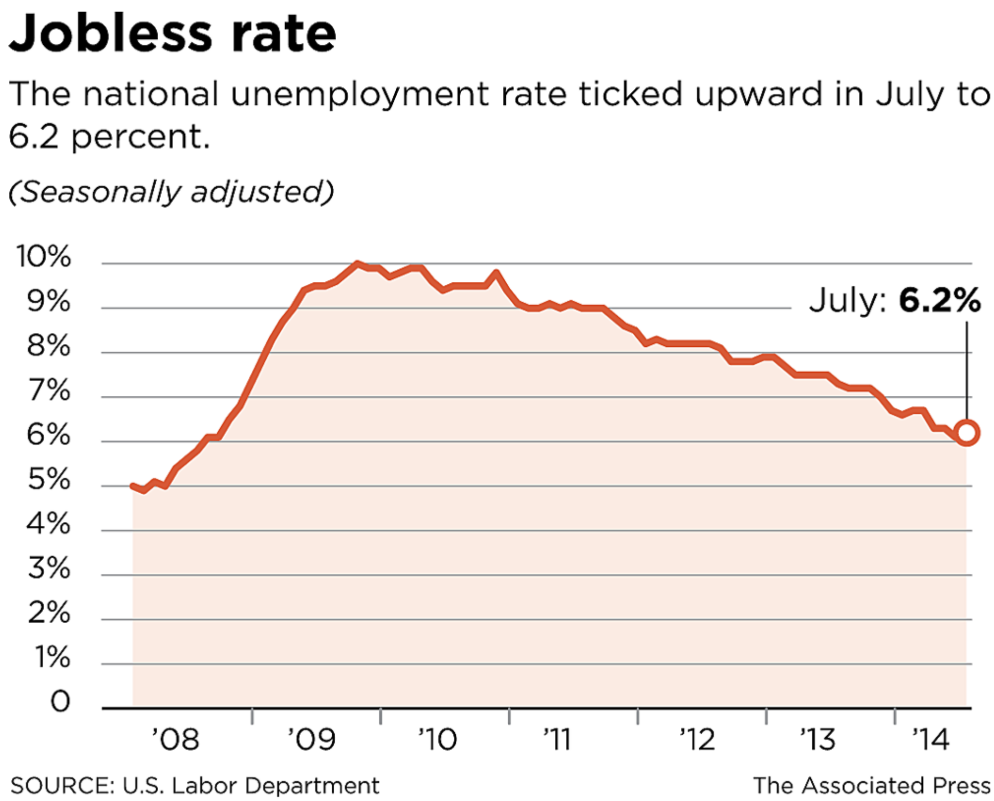
Job market shows new gains, but pace eases



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The economy continued to advance at a sturdy pace in July, the government reported Friday, creating 209,000 jobs and adding to a string of generally positive economic reports in recent weeks pointing to an improved outlook after years of lackluster post-recession growth.

At the same time, last month's job gains were lower than in recent months and less than Wall Street had expected, helping to calm fears that the economy was about to accelerate to a point where the Federal Reserve might start raising interest rates earlier than anticipated.

"This report is consistent with a moderation in economic growth in the second half of the year," said Dean Maki, chief U.S. economist at Barclays. "This is a labor market that is growing solidly, just not quite as fast as in prior months."

The new numbers signaled the sixth straight month of job gains of more than 200,000, the healthiest such stretch since 2006.

The Labor Department also said Friday that unemployment increased to 6.2 percent. Many economists viewed the slight rise as modestly encouraging, in part because more people reported that they were looking for work. That suggested that many of them were starting to see greater job opportunities.

On Wall Street, stocks fell for the second day in a row, though not as steeply as on Thursday, while the bond market improved slightly as interest rates softened.

The latest economic data eases the pressure on the Federal Reserve to retreat more quickly from its stimulus campaign. The Fed's chairwoman, Janet Yellen, and her allies had argued in recent months that the declining unemployment rate overstated the economy's progress, because more people would start looking for work as the recovery continued. The uptick in the unemployment rate in July lent credence to that view.

Inflation is tame

Inflation also remained sluggish. The Fed's preferred measure, which the government also updated Friday, rose just 1.6 percent during the 12 months ending in June, remaining below the central bank's preferred pace of 2 percent a year.

The Fed affirmed Wednesday, after the most recent meeting of its policymaking committee, that it planned to keep interest rates low as long as unemployment remained elevated and inflation remained under control.

The sole dissenter, Charles Plosser, president of the Federal Reserve Bank of Philadelphia, said Friday that the Fed should be moving more quickly toward raising rates. In a statement explaining his decision, he noted that inflation increased during the last year, while unemployment declined, so conditions were moving closer to the Fed's stated goals.

On the jobs numbers, the consensus among economists had been an expectation of about 230,000 new jobs. The July figure was well below the revised 298,000 surge reported in June. So far this year, an average of 229,000 jobs a month have been created. That's a significantly higher pace than in 2010, when a mere 88,000 jobs a month on average were added.

The report was confirmation that a gradual healing of the job market remained on track, though the improvement had been slow. It showed, for example, that during the past year employers added 2.57 million jobs, the most for any 12-month period in the five-year expansion. But the proportion of the country's population that reported having a job in July was unchanged at 59 percent, barely above the 58.7 percent level of a year ago.

"This is another solid report that shows we are sustaining the momentum of broad-based growth in the economy," said Labor Secretary Thomas Perez. He cited the growth in well-paying professional and business services jobs as evidence that gains were spreading more widely.

General optimism about the economy was supported Wednesday when the Commerce Department, in its initial estimate of the economy's overall output for April, May and June, reported that gross domestic product grew at a seasonally adjusted annual rate of 4 percent, surpassing expectations. That represented a rebound from a 2.1 percent decline during the harsh winter quarter.

Pay isn't rising

But Friday's data from the Labor Department showed that in July, average hourly wages barely moved, inching up by just a penny and remaining only 2 percent higher than a year ago, a rate that barely outpaced inflation.

"People's standards of living are still stuck in the mud," said Mark Zandi, chief economist at Moody's Economics, who called the government's report otherwise "close to perfect" because job growth increased across nearly all industries and all pay scales.

The news that wages remained flat contrasted with a report Thursday that U.S. labor costs recorded their biggest gain since the third quarter of 2008. The Employment Cost Index report found that labor costs jumped 0.7 percent, up sharply from the 0.3 percent rate for the first quarter. The 0.5 percent average for the first half, though, was not far from the underlying trend over the previous year.

Friday's Labor Department report seemed to seal the notion that the economy had yet to burst free of its straitjacket.

The labor force participation rate rose slightly in July to 62.9 percent. But Joshua Shapiro, chief U.S. economist for MFR, said in a note to clients that the historically low rate of participation was still troubling because some of the youngest workers were dropping out of the job force.

"The participation rate is at lows not seen since 1978," Shapiro said, "and therefore conditions in the labor market are certainly worse than indicated by the reported steep drop we have been seeing in the unemployment rate."

In Friday's report, retail employment figures were higher for July, up by 27,000 jobs, and for the two previous months after revisions. Jack Kleinhenz, chief economist for the National Retail Federation, said that the news was encouraging but that "no one can guarantee smooth sailing."

"Choppy growth among business lines will continue," he said.

Manufacturing added 28,000 jobs last month, but the Alliance for American Manufacturing said the sector had recovered only 30 percent of the jobs lost during the recession.

"There are many obstacles that stand in the way of a true resurgence: a paucity of investment in our infrastructure, high trade deficits and currency manipulation by countries like China and Japan," the alliance said in a news release.